

VZCZCXRO1805
OO RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHPS #0320/01 1760945
ZNY CCCCC ZZH
O 240945Z JUN 08
FM AMEMBASSY PRISTINA
TO RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RUEHC/SECSTATE WASHDC IMMEDIATE 8286
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUCNDT/USMISSION USUN NEW YORK PRIORITY 1493
RHMFISS/CDR USEUCOM VAIHINGEN GE PRIORITY
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK PRIORITY
RHFMISS/AFSOUTH NAPLES IT PRIORITY
RHMFISS/CDR TF FALCON PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RUEPGEA/CDR650THMIGP SHAPE BE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEAWJA/DEPT OF JUSTICE WASHDC PRIORITY
RUZEJAA/USNIC PRISTINA SR PRIORITY

C O N F I D E N T I A L SECTION 01 OF 04 PRISTINA 000320

SIPDIS

DEPT FOR EUR, EUR/SCE, DRL, INL, AND S/WCI, NSC FOR BRAUN,
USUN FOR DREW SCHUFLETOWSKI, USOSCE FOR STEVE STEGER, OPDAT
FOR ACKER, TREASURY FOR DAS MCDONALD

E.O. 12958: DECL: 06/12/2018

TAGS: [PREL](#) [ETRD](#) [ECON](#) [EAID](#) [EAIR](#) [ETTC](#) [PTER](#) [KTFN](#) [UNMIK](#)
KV, YI

SUBJECT: KOSOVO: TREASURY DAS ASSESSES TECHNICAL
ASSISTANCE, EMPHASIZES DONOR COORDINATION

Classified By: CDA TINA KAIDANOW FOR REASONS 1.4 (B) AND (D)

11. (SBU) SUMMARY: Treasury Department Deputy Assistant Secretary Larry McDonald visited Kosovo from June 1-4 to assess Treasury,s in-country resident advisor program. In meetings with government counterparts within the Ministry of Economy and Finance (MEF), DAS McDonald reaffirmed Treasury,s commitment to support larger USG assistance efforts in-country, while at the same time acknowledging that Kosovo,s changing environment requires flexibility in technical assistance to meet the GOK,s evolving needs and strategic goals. Several GOK interlocutors emphasized the need for more coordination of technical assistance among donors. In preparation for the upcoming donor,s conference in July, DAS McDonald suggested that the GOK emphasize Kosovo,s capacity and success in the area of public finance management and be pro-active in coordinating donor assistance pledges. DAS McDonald also met with IMF, World Bank, think tank and private sector representatives to hear their perspectives on economic development policies in Kosovo and how these policies affect private sector growth. END SUMMARY.

OTA Within the Ministry of Economy and Finance

12. (SBU) On June 1, Treasury Deputy Assistant Secretary for Technical Assistance Policy Larry McDonald arrived for a four-day visit to assess the Office of Technical Assistance (OTA) assistance program in Kosovo. There are currently three OTA advisors resident within the Ministry of Finance and Economy (MEF), specializing in budget, debt and financial crimes. In addition to separate meetings with the advisors, DAS McDonald met with MEF Minister Ahmet Shala and the treasury, budget and tax departments within MEF, to discuss public financial management objectives and preparations for the donor,s conference in July. All the OTA advisors, professional counterparts, including Minister Shala, expressed unequivocal appreciation for the assistance and guidance received through Treasury,s program. Minister Shala also praised the high degree of collaboration between the advisors and local counterparts that has produced tangible results within the ministry.

¶3. (SBU) Budget Director Agim Krasniqi stressed that OTA assistance helped his department improve and implement appropriate capital spending, audits and budget oversight procedures, significantly improving Kosovo,s public financial management framework. Lulzim Ismajli, Director of the MEF Treasury Department, said that his department was getting the right assistance at the right time, and is flexible enough to accommodate needs as they arise. In addition to strengthening debt management and budget execution, Ismajli,s personnel also received hands-on training in cash management procedures organized by the OTA resident advisor. Tax Administration Director Naim Fetahu has only had a few months to work with OTA,s financial crimes advisor but complimented DAS McDonald on U.S. Treasury,s ability to quickly identify and respond to Kosovo,s needs. The Tax Administration's request for assistance on gaming and tax fraud issues has lead to planning to bring a team specializing in casino taxation to Kosovo, an area that is currently unregulated. The OTA financial crimes advisor has also provided expertise and guidance on the drafting and implementation of related gaming taxation legislation.

Preparation for Donors Conference

¶4. (C) With the donor,s conference just around the corner (July 11), DAS McDonald emphasized to Minister Shala and Deputy MEF Minister Bedri Hamza that Kosovo needs to forcefully and positively demonstrate Kosovo,s capacity to appropriately manage donor funds. The Minister,s presentation should include concrete examples of a strong

PRISTINA 00000320 002 OF 004

financial management infrastructure and commitment to strengthen this framework. The government's successful establishment of a single treasury account system is a prime example. Previously, each line ministry used separate accounts for official funds expenditures and payments that did not incorporate acceptable accountability or oversight standards. This made reconciling official government expenditures with payments almost impossible for the budget and treasury departments. Today, all government entities receiving government funds must use the single treasury account system, ensuring strict accountability standards are equally applied.

¶5. (C) DAS McDonald also suggested creating a mechanism to track pledges, disbursements, receipts and execution of donor conference funds, using a database system. During the conference, many countries will promise funding but not everyone will actually deliver the funds pledged. Claims that a recipient country is unable to properly manage the funds have been cited in the past as a reason for not transferring promised funding. Establishing and presenting a solid conference follow-up program to track the funds from pledge to execution will demonstrate Kosovo,s commitment and capability to manage donor funds, he added. Monthly meetings to discuss the results, including informal meetings with local donor representatives, will also aid this process. The significant budget implications associated with donor funding would naturally point to placing such a tracking mechanism within MEF. Minister Shala expressed his appreciation for this advice and mentioned that there is already a Donor Coordination Unit within the Office of the Prime Minister. However, while the Unit has the theory in place to track all of the donor information, Minister Shala pointed out actual execution among all government entities involved is still uncertain. DAS McDonald encouraged the Minister to work pro-actively with the Donor Coordination Unit to establish clear operating procedures and offered to share a sample donor tracking database.

IMF and World Bank

¶6. (C) Seeking to identify possible gap areas where targeted technical assistance might prove useful, DAS McDonald met

with local IMF and World Bank representatives to discuss Kosovo's general economic development. IMF Resident Representative Edgardo Ruggiero emphasized that the GOK must commit to necessary policy decisions in order to continue economic progress. Until these decisions are made, the IMF will remain cautious with technical assistance in order to be certain the GOK has full ownership and understanding of the assistance received. Although Ruggiero stressed that a solid foundation in economic basics is required before further action can be taken, he did acknowledge that Kosovo has made significant improvements in the past several years.

17. (SBU) World Bank Economist Fatmir Besimi also highlighted areas for improvement, such as more efficient procurement practices and budget execution. However, the Bank's Public Expenditure Management Technical Assistance Project (PEMTAP) has worked closely with MEF counterparts to facilitate changes in these areas and to help bring Kosovo's capital spending objectives closer to real-life practices within the government's current procedural framework. The Bank plans to expand work in these areas, along with projects in human resource management and payroll, once Kosovo becomes a World Bank member. PEMTAG is laying the groundwork for these future endeavors.

Private Sector and Think Tank Representatives Share Views

18. (SBU) DAS McDonald hosted an informal dinner with members of the business and think tank communities to hear their views on private sector development in Kosovo. A number of topics were discussed during the evening, but the one that

PRISTINA 00000320 003 OF 004

generated the most animated discussion was the ability of local businesses to access financing. Local interest rates are almost twice the regional average, falling somewhere between 9-11 percent for qualified lenders. As many Kosovo businesses do not strictly adhere to international standards of financial accounting expected in Europe and North America, local banks have a difficult time assessing the viability of loan applicants. Financial records normally supplied by businesses to demonstrate creditworthiness (payment receipts, invoices, audit reports, etc.) are often missing, forcing banks to make decisions based on incomplete information. As a result, if an applicant is considered creditworthy based on the limited financial information available, bank premiums tend to be higher to cover the extra risk. However, high premiums and stricter financial accounting requirements automatically exclude the majority of local companies from accessing capital and growing their businesses.

19. (SBU) A visit by DAS McDonald to one of Kosovo's most successful privately-owned businesses, the Devolli Company, reinforced these points. During a tour of the company's fruit, milk and coffee processing facilities in Peja, Devolli representatives explained that they use short-term financing to cover gaps in cash flow, but interest rates were as high as 20 percent when Devolli first started to borrow money. The costs were nearly prohibitive, and Devolli watched other companies go bankrupt trying to cover interest costs. Although rates are lower today, they are still too high for many Kosovo businesses and it is impossible to secure a loan for longer than 10 years. This does not encourage significant capital investment in existing businesses or to establish new start-ups, noted the Devolli representatives, and will discourage both domestic and international investors from coming to Kosovo. The absence of domestic debt markets or corresponding legislation is also a hindrance, as the Devolli Company would like to go public and attract shareholder investors.

110. (SBU) Devolli also expressed frustration with the current tax scheme, and particularly with VAT implementation. Kosovo currently employs a flat VAT rate on all goods, regardless of value or end-use, while neighboring countries allow lower VAT on necessities (such as milk) or on product inputs where the country has a competitive trade advantage. Devolli explained

that their company is the leading domestic producer of fruit juices and they are required to pay tax on the juice imports.

Neighboring Macedonia pays no tax on juice imports, making their product more competitive domestically and regionally, effectively shutting Devolli out of the neighboring market. High interest rates and profit and corporate taxes prevent businesses from increasing salaries and re-investing in their companies, said Devolli. DAS McDonald encouraged Devolli representatives to continue to discuss these issues publicly with their business colleagues and with government representatives. Companies that produce for both domestic and international markets, such as Devolli, have a special role to play because they understand the middle road between high import duties to protect domestic production and no import duties to encourage export production. This is in Kosovo,s general economic interest, explained DAS McDonald, and he encouraged Devolli to be a strong voice in dialogue with the Kosovo government.

¶11. (SBU) COMMENT: During this first visit to Kosovo, DAS McDonald obtained a solid overview of OTA,s program and gained a stronger sense of where technical assistance is best utilized. He was also able to give useful advice to his Kosovar interlocutors in the short time remaining before the July 11 donors conference. USEP will continue to support the work of OTA advisors within MFE, and continue to work closely with GOK counterparts to prepare for the donor,s conference.

END COMMENT.

¶12. (U) DAS McDonald did not have an opportunity to clear this cable before his departure.

PRISTINA 00000320 004 OF 004

KAIDANOW